



General Assembly

Substitute Bill No. 5416

February Session, 2002

***AN ACT CONCERNING REVIEW OF FINANCIAL REPORTS OF
MUNICIPALITIES AND SPECIAL DISTRICTS BY THE AUDITORS OF
PUBLIC ACCOUNTS.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 2-90 of the general statutes is repealed and the
2 following is substituted in lieu thereof (*Effective October 1, 2002*):

3 (a) The Auditors of Public Accounts shall organize the work of their
4 office in such manner as they deem most economical and efficient and
5 shall determine the scope and frequency of any audit they conduct.

6 (b) Said auditors, with the Comptroller, shall, at least annually and
7 as frequently as they deem necessary, audit the books and accounts of
8 the Treasurer, including, but not limited to, trust funds, as defined in
9 section 3-13c, and certify the results to the Governor. The auditors
10 shall, at least annually and as frequently as they deem necessary, audit
11 the books and accounts of the Comptroller and certify the results to the
12 Governor. They shall examine and prepare certificates of audit with
13 respect to the financial statements contained in the annual reports of
14 the Treasurer and Comptroller, which certificates shall be made part of
15 such annual reports. In carrying out their responsibilities under this
16 section, said auditors may retain independent auditors to assist them.

17 (c) Said auditors shall audit, on a biennial basis if deemed most
18 economical and efficient, or as frequently as they deem necessary, the

19 books and accounts of each officer, department, commission, board
20 and court of the state government, all institutions supported by the
21 state and all public and quasi-public bodies, politic and corporate,
22 created by public or special act of the General Assembly and not
23 required to be audited or subject to reporting requirements, under the
24 provisions of chapter 111. Each such audit may include an examination
25 of performance in order to determine effectiveness in achieving
26 expressed legislative purposes. The auditors shall report their findings
27 and recommendations to the Governor, the State Comptroller, the joint
28 standing committee of the General Assembly having cognizance of
29 matters relating to appropriations and the budgets of state agencies,
30 and the Legislative Program Review and Investigations Committee.

31 (d) Within available appropriations, said auditors shall review the
32 audit reports submitted by municipalities and audited agencies under
33 the provisions of section 7-393, as amended by this act.

34 [(d)] (e) The Auditors of Public Accounts may enter into such
35 contractual agreements as may be necessary for the discharge of their
36 duties. Any audit or report which is prepared by a person, firm or
37 corporation pursuant to any contract with the Auditors of Public
38 Accounts shall bear the signature of the person primarily responsible
39 for the preparation of such audit or report. As used in this subsection,
40 the term "person" means a natural person.

41 [(e)] (f) If the Auditors of Public Accounts discover, or if it should
42 come to their knowledge, that any unauthorized, illegal, irregular or
43 unsafe handling or expenditure of state funds or any breakdown in the
44 safekeeping of any resources of the state has occurred or is
45 contemplated, they shall forthwith present the facts to the Governor,
46 the State Comptroller, the clerk of each house of the General Assembly,
47 the Legislative Program Review and Investigations Committee and the
48 Attorney General. Any Auditor of Public Accounts neglecting to make
49 such a report, or any agent of the auditors neglecting to report to the
50 Auditors of Public Accounts any such matter discovered by him or
51 coming to his knowledge shall be fined not more than one hundred

52 dollars or imprisoned not more than six months or both.

53 [(f)] (g) All reports issued or made pursuant to this section shall be
54 retained in the offices of the Auditors of Public Accounts for a period
55 of not less than five years. The auditors shall file one copy of each such
56 report with the State Librarian.

57 [(g)] (h) Each state agency shall keep its accounts in such form and
58 by such methods as to exhibit the facts required by said auditors and,
59 the provisions of any other general statute notwithstanding, shall
60 make all records and accounts available to them or their agents, upon
61 demand.

62 [(h)] (i) Where there are statutory requirements of confidentiality
63 with regard to such records and accounts or examinations of
64 nongovernmental entities which are maintained by a state agency,
65 such requirements of confidentiality and the penalties for the violation
66 thereof shall apply to the auditors and to their authorized
67 representatives in the same manner and to the same extent as such
68 requirements of confidentiality and penalties apply to such state
69 agency. In addition, the portion of any audit or report prepared by the
70 Auditors of Public Accounts that concerns the internal control
71 structure of a state information system shall not be subject to
72 disclosure under the Freedom of Information Act, as defined in section
73 1-200, as amended.

74 Sec. 2. Section 7-391 of the general statutes is repealed and the
75 following is substituted in lieu thereof (*Effective October 1, 2002*):

76 When used in this chapter, unless the context otherwise requires,
77 the following terms shall have the meanings herein specified:
78 ["Secretary" means the Secretary of the Office of Policy and
79 Management] "Auditors of Public Accounts" means the Auditors of
80 Public Accounts appointed pursuant to section 2-90, as amended by
81 this act; "municipality" includes each town, consolidated town and
82 city, consolidated town and borough, city and borough; "audited
83 agency" includes each district, as defined in section 7-324, or other

84 municipal utility, the Metropolitan District of Hartford County, each
85 regional planning agency, any other political subdivision of similar
86 character which is created and any other agency created or designated
87 by a municipality to act for such municipality whose annual receipts
88 from all sources exceed two hundred thousand dollars; "reporting
89 agency" includes each district, as defined in section 7-324, or other
90 municipal utility, each regional planning agency, any other political
91 subdivision of similar character which is created and any other agency
92 created or designated by a municipality to act for such municipality
93 whose annual receipts from all sources do not exceed two hundred
94 thousand dollars; "appointing authority" means the legislative body of
95 a municipality or the board, committee or other governing body of
96 such audited agency, except in any town where the authority to adopt
97 a budget rests with a town meeting or a representative town meeting
98 "appointing authority" means the board of finance or other board,
99 committee or body charged with preparing the budget, or in a town
100 which has no board of finance or other such board, committee or body,
101 means the board of selectmen or the town council; "audit report"
102 means the report of the independent auditor and the annual financial
103 statements of the municipality or audited agency; "independent
104 auditor" means a public accountant who is licensed to practice in the
105 state of Connecticut and who meets the independence standards
106 included in generally accepted government auditing standards; "public
107 accountant" means an individual who meets standards included in
108 generally accepted government auditing standards for personnel
109 performing government audits and the licensing requirements of the
110 State Board of Accountancy; "receipts" means amounts accrued or
111 received by a municipality, audited agency or reporting agency and
112 reportable as revenues in accordance with generally accepted
113 accounting principles; "municipal utility" means every Connecticut
114 municipality or department or agency thereof, or Connecticut district,
115 manufacturing, selling or distributing gas or electricity to be used for
116 light, heat or power or water.

117 Sec. 3. Section 7-392 of the general statutes is repealed and the

118 following is substituted in lieu thereof (*Effective October 1, 2002*):

119 (a) All municipalities shall have all their financial statements
120 audited at least once annually and shall provide for audits in
121 accordance with the provisions of sections 4-230 to 4-236, inclusive.
122 Each audited agency, except a local housing authority, shall have all its
123 accounts audited at least once annually. Such audit shall be made by
124 an independent auditor, as defined in section 7-391, as amended by
125 this act, who shall be designated in accordance with the provisions of
126 section 7-396, as amended by this act. Any independent auditor so
127 retained to render such an annual or biennial audit shall have his
128 duties and powers defined by [said secretary] the Auditors of Public
129 Accounts. Any audit rendered under the provisions of this chapter
130 shall be performed in accordance with [standards adopted by the
131 secretary by regulation and approved] regulations adopted in
132 accordance with chapter 54 by the Auditors of Public Accounts.

133 (b) Notwithstanding the provisions of subsection (a) of this section,
134 if the charter in any municipality contains provisions applicable with
135 respect to selection of an independent auditor for purposes of such
136 audit, such selection shall be conducted in accordance with the charter,
137 provided such selection shall be subject to approval by the [Secretary
138 of the Office of Policy and Management] Auditors of Public Accounts.

139 (c) In conjunction with each audit of its financial statements, each
140 town shall provide for the auditing of the financial statements of each
141 school district operating within its boundaries. In the case of a regional
142 school district, the regional board of education shall provide for such
143 an audit.

144 (d) The Commissioner of Economic and Community Development
145 shall provide for the auditing of the financial statements of each local
146 housing authority at least once biennially. Such audit may be
147 conducted by an independent auditor or by employees of the
148 Department of Economic and Community Development, as the
149 commissioner may determine. The commissioner may charge any

150 housing authority for the cost of any such audit of its accounts. Upon
151 completion of any such audit, the commissioner shall file certified
152 copies of the audit report with the chairman and the executive director
153 of the housing authority, with the chief executive officer and the clerk
154 of the municipality in which such housing authority is located, [and]
155 with the Secretary of the Office of Policy and Management and with
156 the Auditors of Public Accounts.

157 (e) The treasurer or other officer having authority over the financial
158 affairs of any reporting agency shall, annually, file a statement
159 concerning the accounts and finances of such agency with the town
160 clerk and the board of finance of the town in which such agency is
161 located. Such statement shall include, but shall not be limited to, a
162 listing of major disbursements and sources of receipts and shall be
163 filed not later than ninety days after the end of the fiscal year or period
164 which is the subject of the statement. Each treasurer or other officer
165 who fails to file a statement required pursuant to this subsection shall
166 be fined five hundred dollars for each statement not filed. The fine
167 shall be levied and collected by the town clerk.

168 Sec. 4. Section 7-393 of the general statutes is repealed and the
169 following is substituted in lieu thereof (*Effective October 1, 2002*):

170 Upon the completion of an audit, the independent auditor shall file
171 certified copies of the audit report with (1) the appointing authority,
172 (2) in the case of a town, city or borough, with the clerk and board of
173 finance of such town, city or borough, (3) in the case of a regional
174 school district, with the clerks and boards of finance of the towns, cities
175 or boroughs in which such regional school district is located and with
176 the board of education, (4) in the case of an audited agency, with the
177 clerks and boards of finance of the towns, cities or boroughs in which
178 such audited agency is located, and (5) in each case, with the [Secretary
179 of the Office of Policy and Management] Auditors of Public Accounts.
180 Such copies shall be filed within six months from the end of the fiscal
181 year of the municipality, regional school district or audited agency, but
182 the [secretary] Auditors of Public Accounts may grant an extension of

183 not more than thirty days, provided the auditor making the audit and
184 the chief executive officer of the municipality, regional school district
185 or audited agency shall jointly submit a request in writing to the
186 [secretary] Auditors of Public Accounts stating the reasons for such
187 extension at least thirty days prior to the end of such six-month period.
188 If the reason for the extension relates to deficiencies in the accounting
189 system of the municipality, regional school district or audited agency
190 the request must be accompanied by a corrective action plan. The
191 [secretary] Auditors of Public Accounts may, after a hearing with the
192 auditor and officials of the municipality, regional school district or
193 audited agency, grant an additional extension if conditions warrant.
194 Said auditor shall preserve all of his working papers employed in the
195 preparation of any such audit until the expiration of three years from
196 the date of filing a certified copy of the audit with the [secretary]
197 Auditors of Public Accounts and such working papers shall be
198 available, upon written request and upon reasonable notice from the
199 [secretary] Auditors of Public Accounts, during such time for
200 inspection by the [secretary] Auditors of Public Accounts or [his] their
201 authorized representative, at the office or place of business of the
202 auditor, during usual business hours. Any municipality, regional
203 school district, audited agency or auditor who fails to have the audit
204 report filed on its behalf within six months from the end of the fiscal
205 year or within the time granted by the [secretary] Auditors of Public
206 Accounts shall be assessed a civil penalty of not less than one thousand
207 dollars but not more than ten thousand dollars. The [secretary]
208 Auditors of Public Accounts may waive such penalty if, in [his] their
209 opinion, there appears to be reasonable cause for not having
210 completed or provided the required audit report, provided an official
211 of the municipality, regional school district or audited agency or the
212 auditor submits a written request for such waiver.

213 Sec. 5. Section 7-394a of the general statutes is repealed and the
214 following is substituted in lieu thereof (*Effective October 1, 2002*):

215 (a) The audit report prepared by an independent auditor, as defined
216 in section 7-391, as amended by this act, retained to render an audit for

217 a municipality, regional school district or audited agency, or by any
218 fiscal officer of such municipality, regional school district or audited
219 agency shall be prepared in accordance with generally accepted
220 accounting principles, generally accepted auditing standards and the
221 provisions of sections 4-230 to 4-236, inclusive.

222 (b) Any municipality, regional school district or audited agency
223 may, however, on the basis of unreasonable hardship directly related
224 to compliance with the provisions of subsection (a) of this section,
225 request permission to have the audit report prepared in a manner not
226 in compliance with said provisions by filing such request in writing
227 with the [Secretary of the Office of Policy and Management] Auditors
228 of Public Accounts, including an explanation of the problems related to
229 such compliance and an estimate of the time required to implement
230 changes in existing procedures as necessary to prepare the audit report
231 in accordance with said provisions.

232 (c) The [Secretary of the Office of Policy and Management] Auditors
233 of Public Accounts shall adopt regulations as necessary to establish
234 guidelines concerning compliance with the provisions of subsection (a)
235 of this section and concerning any special problems related to such
236 compliance by any municipality, regional school district or audited
237 agency. Such regulations shall, prior to adoption, be submitted to the
238 Municipal Finance Advisory Commission for review as provided in
239 section 7-394b, as amended by this act.

240 (d) Notwithstanding the provisions of section 7-396a, any
241 agreement for a grant entered into on or after July 1, 1987, between a
242 state agency and a municipality, regional school district or audited
243 agency which has adopted the uniform fiscal year pursuant to section
244 7-382, or any of the agencies of such municipality, shall provide that
245 any audit of grant expenditures required by such agreement shall be
246 prepared by the municipality, regional school district or audited
247 agency, in accordance with this section and section 7-382.

248 Sec. 6. Section 7-394b of the general statutes is repealed and the

249 following is substituted in lieu thereof (*Effective October 1, 2002*):

250 (a) There is established a Municipal Finance Advisory Commission
251 which shall (1) review and submit any recommendations as may be
252 deemed appropriate with respect to any regulations concerning the
253 provisions of section 7-394a, as amended by this act, submitted by the
254 [Secretary of the Office of Policy and Management] Auditors of Public
255 Accounts for purposes of such review, and (2) work with any
256 municipality or audited agency referred to it pursuant to the
257 provisions of section 7-395, as amended by this act, to improve the
258 fiscal condition of such municipality or audited agency. Upon receipt
259 of the [secretary's] report of the Auditors of Public Accounts pursuant
260 to said section 7-395, the commission shall, in determining the level of
261 financial distress of such municipality or audited agency, review
262 audits, budgets, accounting and fiscal management practices and any
263 other information relevant to the [municipality's] fiscal condition of the
264 municipality or audited agency. The commission may require the chief
265 executive officer of the municipality or audited agency to (A) provide
266 such information and appear before the commission to discuss the
267 financial condition of the municipality or audited agency and the
268 implementation of remedial measures to improve its financial
269 condition, and (B) submit a written report to the commission on
270 implementation of the recommendations of the commission and other
271 remedial measures. If a chief executive officer of a municipality or
272 head of an audited agency fails to provide the information requested
273 or submit the report within thirty days of the request, the commission
274 may assess a civil penalty of not less than one thousand but not more
275 than ten thousand dollars on the municipality or audited agency. If a
276 chief executive officer of a municipality or head of an audited agency
277 upon whom a penalty has been imposed submits a request, the
278 [secretary] Auditors of Public Accounts may waive all or a portion of
279 such penalty [if he determines] upon determination that a reasonable
280 cause exists for not having provided the requested information or
281 report. The [secretary] Auditors of Public Accounts may, as a condition
282 of such waiver, require compliance by a date set by the [secretary]

283 Auditors of Public Accounts.

284 (b) Said commission shall consist of eight members appointed by
285 the Governor as follows: (1) Four members who are fiscal or executive
286 officers of municipalities or audited agencies, with one such member
287 from a municipality or audited agency in each of the following
288 categories of population at the time of such appointment: (A) A
289 municipality or audited agency with a population under ten thousand,
290 (B) a municipality or audited agency with a population of at least ten
291 thousand but under twenty-five thousand, (C) a municipality or
292 audited agency with a population of at least twenty-five thousand but
293 under seventy-five thousand, and (D) a municipality or audited
294 agency with a population of seventy-five thousand or over; (2) three
295 members who are not officers of municipalities or audited agencies but
296 whose experience and knowledge, in the discretion of the Governor,
297 would be valuable for the purposes of said commission, and (3) a
298 representative from the [Office of Policy and Management] Auditors of
299 Public Accounts. Members shall be appointed for four-year terms
300 coterminous with the term of the Governor or until a successor is
301 appointed and qualified, whichever is longer, provided the term of any
302 such member shall be contingent upon holding the office, when
303 applicable, which qualified such member for appointment. Vacancies
304 other than by expiration of terms shall be filled by appointment by the
305 Governor for the unexpired term. All members of said commission
306 shall serve without compensation, except for reimbursement for their
307 necessary expenses incurred in the performance of their duties as
308 members.

309 (c) Repealed by P.A. 83-321, S. 2, 3.

310 Sec. 7. Section 7-395 of the general statutes is repealed and the
311 following is substituted in lieu thereof (*Effective October 1, 2002*):

312 The [secretary] Auditors of Public Accounts shall review each audit
313 report filed with said [secretary] Auditors of Public Accounts as
314 provided in section 7-393, as amended by this act, except said

315 [secretary] Auditors of Public Accounts shall review the audit reports
316 on each audited agency biennially and may review the audit reports
317 on any municipality or regional school district biennially, provided
318 such [secretary] Auditors of Public Accounts shall, in any year in
319 which [he] the Auditors of Public Accounts does not review the report
320 of any such municipality or regional school district, review the
321 comments and recommendations of the independent auditor who
322 made such audit. If, upon such review of the audit report, evidence of
323 fraud or embezzlement is found, [he] the Auditors of Public Accounts
324 shall report such information to the state's attorney for the judicial
325 district in which such municipality, regional school district or audited
326 agency is located. If, in the review of such audit report said [secretary
327 finds] Auditors of Public Accounts find that such audit has not been
328 prepared in compliance with the provisions of subsection (a) of section
329 7-394a, as amended by this act, or said [secretary finds] Auditors of
330 Public Accounts find evidence of any unsound or irregular financial
331 practice in relation to commonly accepted standards in municipal
332 finance, said [secretary] Auditors of Public Accounts shall prepare a
333 report concerning such finding, including necessary details for proper
334 evaluation of such finding and recommendations for corrective action
335 and shall refer such report to the Municipal Finance Advisory
336 Commission established under section 7-394b, as amended by this act.
337 A copy of such report shall be filed with: (1) The chief executive officer
338 of such municipality or audited agency or the superintendent of such
339 school district and, in the case of a town, city or borough, with the
340 clerk and board of finance of such town, city or borough; and (2) the
341 [Auditors of Public Accounts] Secretary of the Office of Policy and
342 Management.

343 Sec. 8. Section 7-396 of the general statutes is repealed and the
344 following is substituted in lieu thereof (*Effective October 1, 2002*):

345 The regional board of education and appointing authority of any
346 municipality or audited agency shall file with the [Secretary of the
347 Office of Policy and Management] Auditors of Public Accounts the
348 name of the independent auditor, designated to audit the financial

349 statements of the regional school district, municipality, or audited
350 agency, at least thirty days before the end of the fiscal period of such
351 regional school district, municipality, or audited agency for which
352 such audit is required. If any such appointing authority fails to notify
353 the [secretary] Auditors of Public Accounts of such designation before
354 such thirty-day period, said [secretary] Auditors of Public Accounts
355 may appoint any independent auditor to audit the accounts of such
356 regional school district, municipality or audited agency, and the cost
357 and expense of such audit shall be borne by such regional school
358 district, municipality or audited agency.

This act shall take effect as follows:	
Section 1	<i>October 1, 2002</i>
Sec. 2	<i>October 1, 2002</i>
Sec. 3	<i>October 1, 2002</i>
Sec. 4	<i>October 1, 2002</i>
Sec. 5	<i>October 1, 2002</i>
Sec. 6	<i>October 1, 2002</i>
Sec. 7	<i>October 1, 2002</i>
Sec. 8	<i>October 1, 2002</i>

PD *Joint Favorable Subst.*